

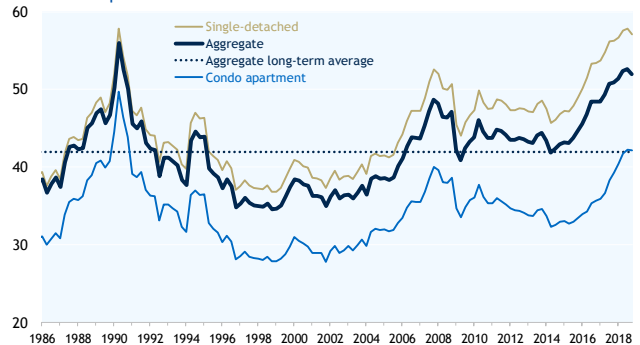
HOUSING TRENDS AND AFFORDABILITY

March 2019

Softer housing market in Canada provides some affordability relief

- **Home ownership costs dipped almost everywhere in Canada in the fourth quarter of 2018.** Nation-wide, the share of income needed to cover the costs of owning a home fell 0.7 percentage points to 51.9%.
- **An easing in property values brought most of the affordability relief.** The mortgage stress test, earlier increases in interest rates and policy tightening in British Columbia pushed many buyers to the sidelines. Home prices declined for only the second time in five years.
- **The fourth-quarter relief barely made a dent in Vancouver and Toronto.** Affordability is still at crisis levels in these markets and pressure is intensifying in Montreal.
- **More (incremental) relief on the way?** We have lowered our profile for interest rates and now expect home prices to be flat at best overall in Canada this year—with further price declines likely in Vancouver and Alberta. With household income still set to rise, the outlook for affordability has brightened somewhat.

RBC Housing Affordability Measures - Canada
Ownership costs as % of median household income



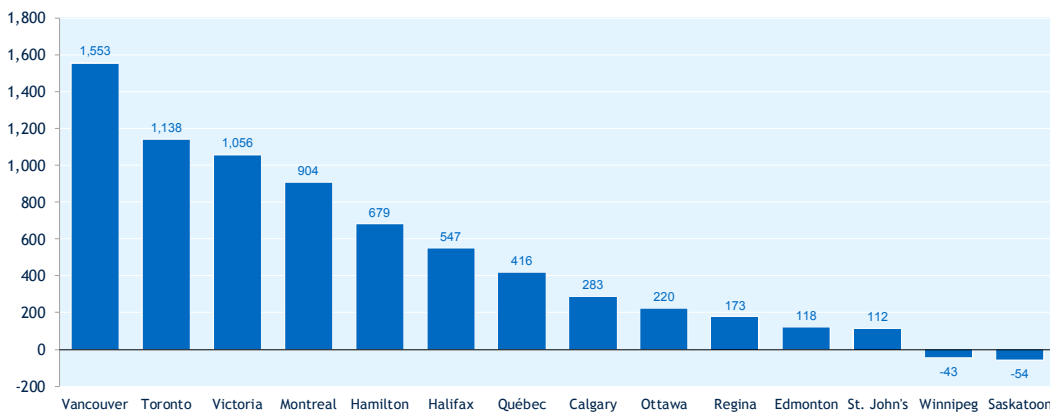
The share of income a household would need to cover ownership costs (in %)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
51.9	84.7	40.3	34.8	66.1	40.6	44.5

Fourth quarter 2018

Premium paid to own a condo over renting an apartment

Difference between the ownership costs of an average condo and the rent of a two-bedroom apartment, \$ per month, Q4/2018



Source: CMHC, Statistics Canada, Bank of Canada, RPS, RBC Economic Research

Buying a condo is a bigger step up from renting

The intense affordability pressures present in some of Canada's largest markets over the past few years have driven up demand for condos. This is because an increasing number of buyers have been shut out of the higher-priced single-family home categories and turned their focus toward lower-priced options—mainly condos. Trouble is, this stronger demand for condos resulted in sharper price gains and affordability erosion. Over the past year, RBC's affordability measure for

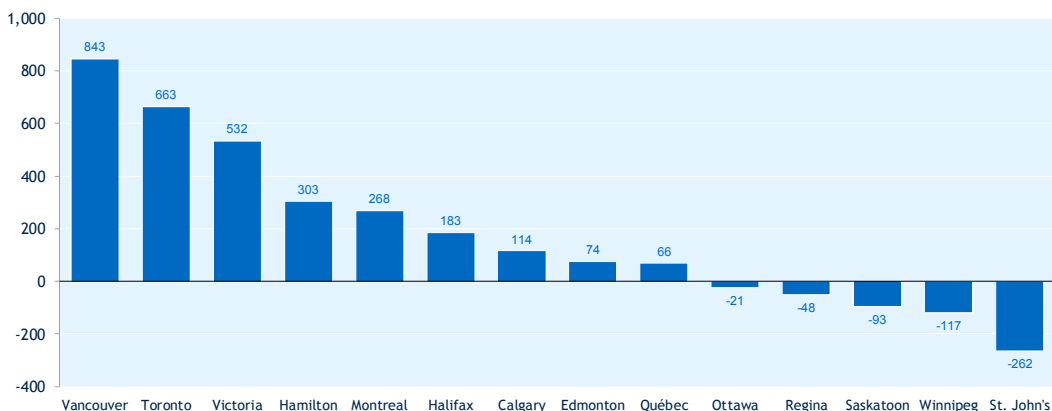


condos in Canada increased by 2.8 percentage points compared to only 0.9 percentage points for single-detached homes (an increase in the measure represents a loss of affordability). The deterioration of condo ownership affordability in many large markets in Canada also really jumps out when compared to renting an apartment—normally a reasonably close substitute. Buyers of an average condo in Vancouver, Toronto, Victoria and Montreal pay a premium of more than \$900 per month relative to renting a two-

bedroom apartment. And that premium has ballooned in the past three years. Condo buyers paid \$843 more a month (a 119% surge) than they did at the end of 2015 in Vancouver, \$663 (140%) in Toronto and \$532 (102%) in Victoria. This means that buying a condo is a bigger step up from renting than it's ever been in these and other cities. And it's not because rent is cheap or became less expensive over that interval. Rent increased by an average of 6.4% in Vancouver, 4.4% in Toronto and 7.6% in Victoria in the past three years. So while owning a condo remains much more affordable than owning a single-family home—albeit gradually less so—it's appeal is quickly diminishing relative to rental options in Canada's priciest markets. Expect rental demand to grow rapidly in the years ahead.

Change in the condo ownership premium since 2015

How the difference between the condo ownership costs and apartment rent evolved from Q4/2015 to Q4/2018, \$ per month



Source: CMHC, Statistics Canada, Bank of Canada, RPS, RBC Economic Research

Generalized improvement in the fourth quarter doesn't really change the big picture—affordability strains persist

Buying a home in Vancouver, Toronto, Victoria and, increasingly, Montreal is still a stretch for ordinary Canadians. Despite all four markets seeing some degree of improvement in the fourth quarter of 2018, RBC's aggregate affordability measures remain close to record-high levels in the first three, and well above the long-run average in Montreal. The national measure shows a similar picture. Its first quarterly drop in more than three years (down 0.7 percentage points) barely registered. At 51.9%, RBC's aggregate measure for Canada last quarter was still synonymous of stretched affordability in this country. Not that this issue is pervasive, though. A small majority of the markets that we track, in fact, boast affordability levels that are within historical norms. These include Calgary, Edmonton, Saskatoon, Regina, Winnipeg, Quebec City, Saint John, Halifax and St. John's. So the affordability strains present in Canada are still confined to a few—but large—markets.

Outlook for affordability brightens (somewhat)

The dip in home ownership costs in the fourth quarter may not be an aberration. Disappointing economic developments since the late stages of 2018 have prompted us to lower our profile for interest rates in Canada. We also see very little scope for home prices to increase nationally this year. Our forecast for Canada calls for prices to remain unchanged. Current trends even point to likely declines in Vancouver and Alberta markets. And with the tight labour market poised to keep household income growing, the stars are aligning for more affordability relief in the period ahead.



British Columbia

Victoria – Buyers still challenged by poor affordability

Housing activity softened considerably in the past two years in Victoria. Home resales fell 20% in 2018 with the weakness spilling into early-2019. The mortgage stress test and market-cooling measures introduced by the BC government contributed heavily to the slowdown. And so did poor housing affordability. RBC’s aggregate measure for Victoria, at 60.0% in the fourth quarter, is the third-highest in the country—meaning Victoria remains the third-least affordable market in Canada. A decline of 1.0 percentage point brought some relief last quarter but this unlikely made any difference to the area’s homebuyers.

Vancouver area – Affordability crisis magnifies the market correction

The Vancouver-area housing market is in full-blown correction mode. Home resales have plummeted 58% since the peak in early 2016 with no sign of a turnaround so far in 2019. While various policy measures triggered and sustained the correction, Vancouver’s ongoing affordability crisis explains most its magnitude. The demand-supply balance now favours buyers and prices are falling. This helped RBC’s aggregate affordability measure to improve by 2.6 percentage points in the fourth quarter. With ownership cost still representing 84.7% of household income, we’re still a long way from the end of the crisis.

Alberta

Calgary – Downbeat buyers await stronger economic cues

Calgary’s market recovery fell apart in 2018. Home resales slumped to an 18-year low. The stress test, higher interest rates and turmoil in the energy sector served successive blows to local homebuyers who couldn’t be swayed into action by (small) price concessions by sellers. Affordability isn’t a big issue here. RBC’s aggregate measure (40.3% in the fourth quarter) remains marginally below its long-run average (40.6%)—though rising interest rates put it on a very slight deteriorating trend since mid-2017. No doubt buyers are waiting for stronger signs from the provincial economy at this stage.

Edmonton – Other factors weigh more heavily than affordability

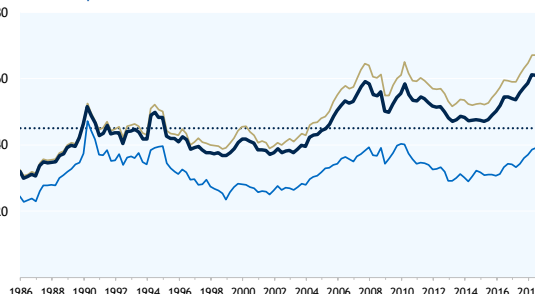
The picture is similar in Edmonton where home resale activity fell to its lowest level since 2011, and 2019 started on an even softer note. As in Calgary, affordability is unlikely to be a major stumbling block for buyers. RBC’s aggregate measure for Edmonton (34.8% in the fourth quarter) is close to its long-term average of 34.2% and has been quite stable over the past three quarters. Other factors including the state of the provincial economy clearly are holding back buyers. Unfortunately, 2019 is shaping up to be challenging as well.

RBC Housing Affordability Measures

— Single-detached — Aggregate
 Aggregate long-term average — Condo apartment

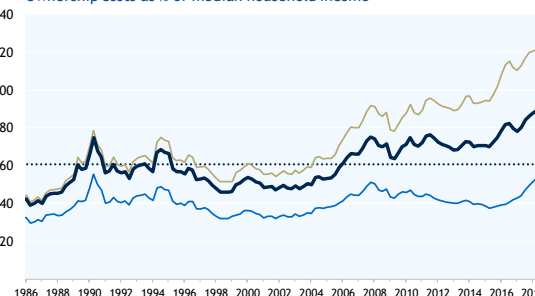
Victoria

Ownership costs as % of median household income



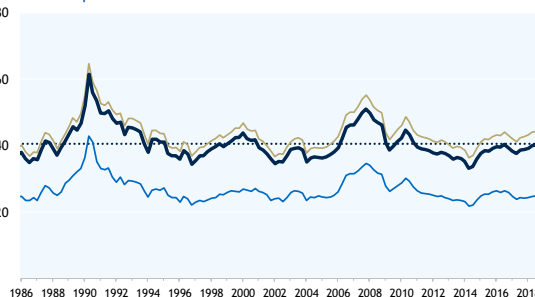
Vancouver Area

Ownership costs as % of median household income



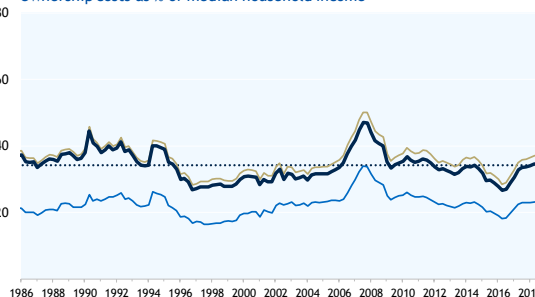
Calgary

Ownership costs as % of median household income



Edmonton

Ownership costs as % of median household income



Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economic Research

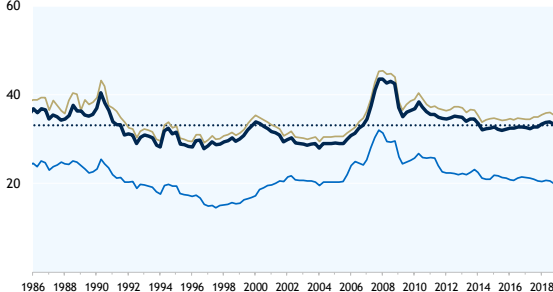


RBC Housing Affordability Measures

— Single-detached — Aggregate
 Aggregate long-term average — Condo apartment

Saskatoon

Ownership costs as % of median household income



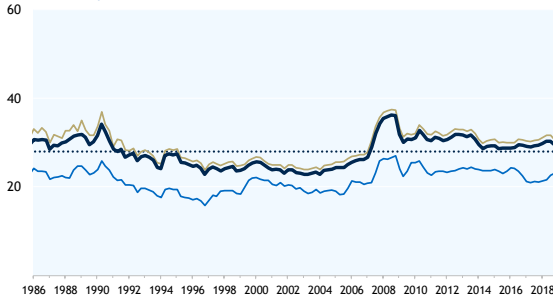
Saskatchewan

Saskatoon – Buyers feel no urgency to jump back into the market

In the end, 2018 marked a fourth-straight year of sales decline and languishing prices for Saskatoon’s market. Persistent economic uncertainty in the province, the stress test and higher interest rates kept buyers on the sidelines. And there’s been little urgency for them to jump back in. Inventories remained plentiful and ownership costs stayed largely flat. RBC’s aggregate affordability measure for the area fell only slightly by 0.5 percentage points in the fourth quarter to 33.4%, still near its long-run average of 33.1%.

Regina

Ownership costs as % of median household income

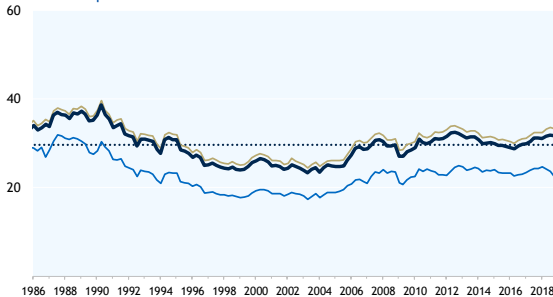


Regina – Best affordability in the West isn’t enough to spur buyers

The same factors were at play in Regina where resale activity slumped to a 12-year low and prices receded slightly for a fifth consecutive year in 2018. Housing affordability is unlikely to be a major impediment for local buyers. It is in fact the best among the markets that we track in Western Canada based RBC’s aggregate measure for Regina of 29.5% in the fourth quarter—little changed over the past year.

Winnipeg

Ownership costs as % of median household income



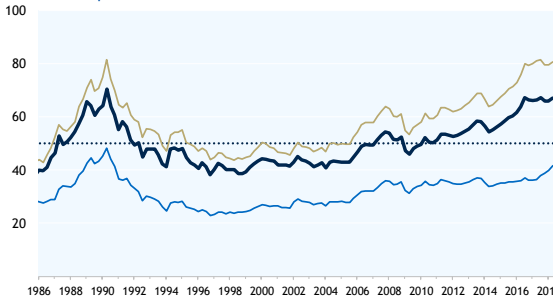
Manitoba

Winnipeg – Souring market sentiment not an affordability issue

Winnipeg buyers weren’t immune to the pressure arising from the stress test and higher interest rates in 2018. This caused many of them to take a pass, which sent activity to an eight-year low. Demand-supply conditions remained balanced, though, and prices stayed afloat—until the fourth quarter year when souring market sentiment weakened price support, giving buyers a bit of a break. Not that affordability was an issue to begin with. RBC’s aggregate measure has hovered near its long-run average (29.6%) for most of the past decade. It edged lower by 0.3 percentage points to 31.6% in the fourth quarter.

Toronto Area

Ownership costs as % of median household income



Ontario

Toronto area – Owning a home is still a huge stretch for many buyers

The significant cooling in the Toronto-area housing market is delivering some affordability relief to buyers but it is much too small to make a meaningful difference. Despite falling 1.0 percentage point in the fourth quarter, RBC’s aggregate measure for Toronto (66.1%) continued to be near historical highs. Owning a home—especially a single-family home—is still a huge stretch for many buyers. So don’t expect the market to reverse its two-year, 31% sales decline anytime soon. If the early months of 2019 are any indication, there’s even further downside risk (although inclement weather may have exaggerated the weakness). Any affordability improvement is poised to be only incremental with prices forecast to stay flat overall this year.

Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economic Research



RBC Housing Affordability Measures

— Single-detached — Aggregate
 Aggregate long-term average — Condo apartment

Ottawa – Confidence is running high

Ottawa emerged as one of the stronger housing markets in Canada last year. Existing home sales set a new record high of 17,700 units and prices climbed between 4.5% and 7.5% depending on the index. Tight demand-supply conditions continue to bolster confidence in early-2019. And upbeat buyers so far aren't overly fussed by the moderate rise in ownership costs over the past two years. RBC's aggregate affordability measure for Ottawa reached a 24-year high of 41.0% in the third quarter of 2018 before easing slightly to 40.6% last quarter—still a far cry from the levels prevailing in Vancouver, Toronto and Victoria.

Quebec

Montreal area – Decade-low affordability not an obstacle to buyers

Montreal is the other major market in Canada that set an all-time sales record in 2018 (46,800 units). Supported by a vibrant economy and increasing international interest, demand has been solid across the board. So much so that sellers have gained the upper hand in all housing categories—even condos. Property values are going up but at a controlled pace (in the range of 5-6% year over year). This is gradually eroding housing affordability to levels that potentially could pinch buyers but, as in Ottawa, buyers weren't bothered by it. RBC's aggregate measure for Montreal was little changed at 44.5% in the fourth quarter, still near a decade high.

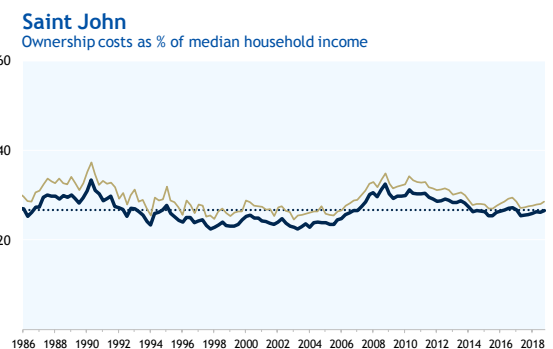
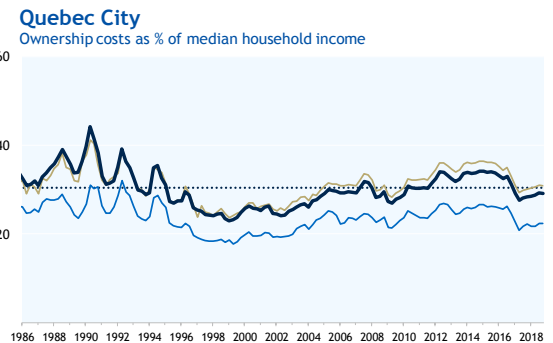
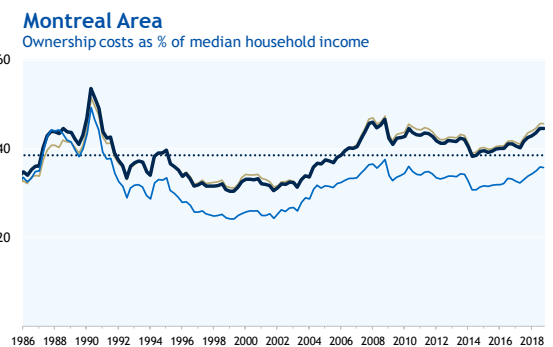
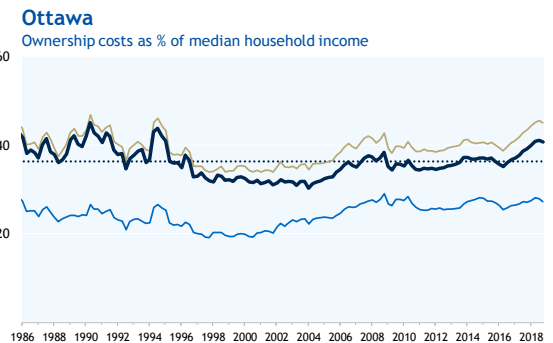
Quebec City – Sales upswing continues though inventories are still high

Quebec City's market upswing extended to a fifth year last year with home resales rising by 4.2% from 2017. Yet despite growing demand, the area still couldn't shake off its long-standing over-supply issues. Inventory levels remain high in all housing segments, which is keeping buyers in command and price increases to a minimum. If anything, housing affordability looks mildly attractive at this point with RBC's aggregate measure (29.1% in the fourth quarter) slightly below its long-run average (30.4%).

Atlantic Canada

Saint John – Low ownership costs help support solid activity

Saint John's housing market is coming off another pretty good year in 2018. Although home resales slowed down slightly from 2017—a nine-year high—the level of activity remained solid. Solid enough, in fact, to tighten demand-supply conditions the most since 2008. Sellers gained substantial pricing power by the end of the year. The rate of price increase was one of the fastest among the markets that we track in the fourth quarter. This eroded affordability slightly but Saint John continues to boast very low ownership costs compared to other Canadian cities. RBC's aggregate measure for the area was 26.5% last quarter, up just 0.3 percentage points from the third quarter.



Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economic Research

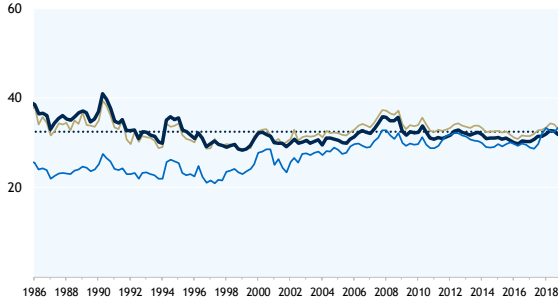


RBC Housing Affordability Measures

— Single-detached — Aggregate
 Aggregate long-term average — Condo apartment

Halifax

Ownership costs as % of median household income

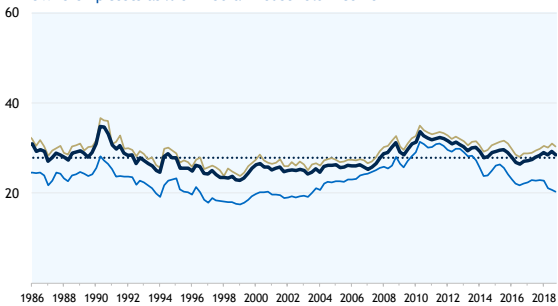


Halifax – Hot and affordable

Halifax's housing market is quite hot. Home resales reached a six-year high in 2018 and for-sale inventories are running low. This normally would be a recipe for fast-rising prices and deteriorating affordability. Yet the mortgage stress test and higher interest rates appear to have dented market sentiment and defused any price pressure. Property values even fell modestly in the fourth quarter. The upside of this is that owning a home in Halifax continues to be affordable for most buyers. RBC's aggregate affordability measure dipped 0.7 percentage points to 31.9% in the fourth quarter—still below the long-run average of 32.5%.

St. John's

Ownership costs as % of median household income



St. John's – Slump persists but there's light at the end of the tunnel

St. John's market is mired in a deep slump. The number of properties changing hands fell for a fifth time in six years in 2018—to a 12-year low. Activity slid even further in the first two months of 2019. Buyers show little interest despite plenty of for-sale options and generally affordable ownership costs. RBC's aggregate measure for St. John's was 28.5% in the fourth quarter, the second-lowest among the markets that we track after Saint John. A recent strengthening in the local job market brings hope of better days ahead. If sustained, job gains and a drop in the unemployment rate since the fall could help revitalize demand later this year.



How the RBC Housing Affordability Measures work

The RBC Housing Affordability Measures show the proportion of median pre-tax household income that would be required to service the cost of mortgage payments (principal and interest), property taxes, and utilities based on the average market price for single-family detached homes and condo apartments, as well as for an overall aggregate of all housing types in a given market.

Current home prices are sourced from RPS, and established from sales prices from monthly transactions, which are filtered to remove extreme values and other outliers.

The aggregate of all categories includes information on prices for housing styles not covered in this report (semi-detached, row houses, townhouses and plexes) in addition to prices for single-family detached homes and condominium apartments. In general, single-family detached homes and condo apartments represent the bulk of the owned housing stock across Canadian markets.

The affordability measures are based on a 25% down payment, a 25-year mortgage loan at a five-year fixed rate, and are estimated on a quarterly basis for 14 major urban markets in Canada and a national composite. The measures use household income rather than family income to account for the growing number of unattached individuals in the housing market. The measure is based on quarterly estimates of this annual income, created by annualizing and weighting average weekly earnings by province and by urban area. (Median household income is used instead of the arithmetic mean to avoid distortions caused by extreme values at either end of the income distribution scale. The median represents the value below and above which lays an equal number of observations.)

The RBC Housing Affordability Measure is based on gross household income estimates and, therefore, does not show the effect of various provincial property-tax credits, which could alter relative levels of affordability.

The higher the measure, the more difficult it is to afford a home. For example, an affordability measure of 50% means that home ownership costs, including mortgage payments, utilities, and property taxes take up 50% of a typical household's pre-tax income.

Summary tables

Aggregate of all categories							
Market	Price			RBC Housing Affordability Measure			
	Q4 2018 (\$)	Q/Q % ch.	Y/Y % ch.	Q4 2018 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	562,000	-0.8	1.0	51.9	-0.7	1.0	42.0
Victoria	800,600	-1.2	5.0	60.0	-1.0	2.8	45.0
Vancouver area	1,101,300	-2.8	-2.7	84.7	-2.6	-1.7	60.7
Calgary	503,400	-0.6	0.0	40.3	0.1	1.4	40.6
Edmonton	404,500	-0.8	-0.3	34.8	0.1	1.2	34.2
Saskatoon	363,300	-0.5	-1.1	33.4	-0.5	0.7	33.1
Regina	318,600	-2.0	-2.8	29.5	-0.8	0.1	27.9
Winnipeg	306,800	-1.0	1.2	31.6	-0.3	0.4	29.6
Toronto area	850,100	-0.6	-0.4	66.1	-1.0	0.2	50.0
Ottawa	435,100	-0.2	3.9	40.6	-0.4	1.4	36.4
Montreal area	419,700	1.3	5.1	44.5	-0.1	2.0	38.5
Quebec City	302,900	0.8	3.1	29.1	-0.2	0.7	30.4
Saint John	218,400	2.7	4.8	26.5	0.3	0.8	26.7
Halifax	319,800	-1.4	0.4	31.9	-0.7	0.5	32.5
St. John's	298,700	-1.8	-3.7	28.5	-0.7	0.2	27.8

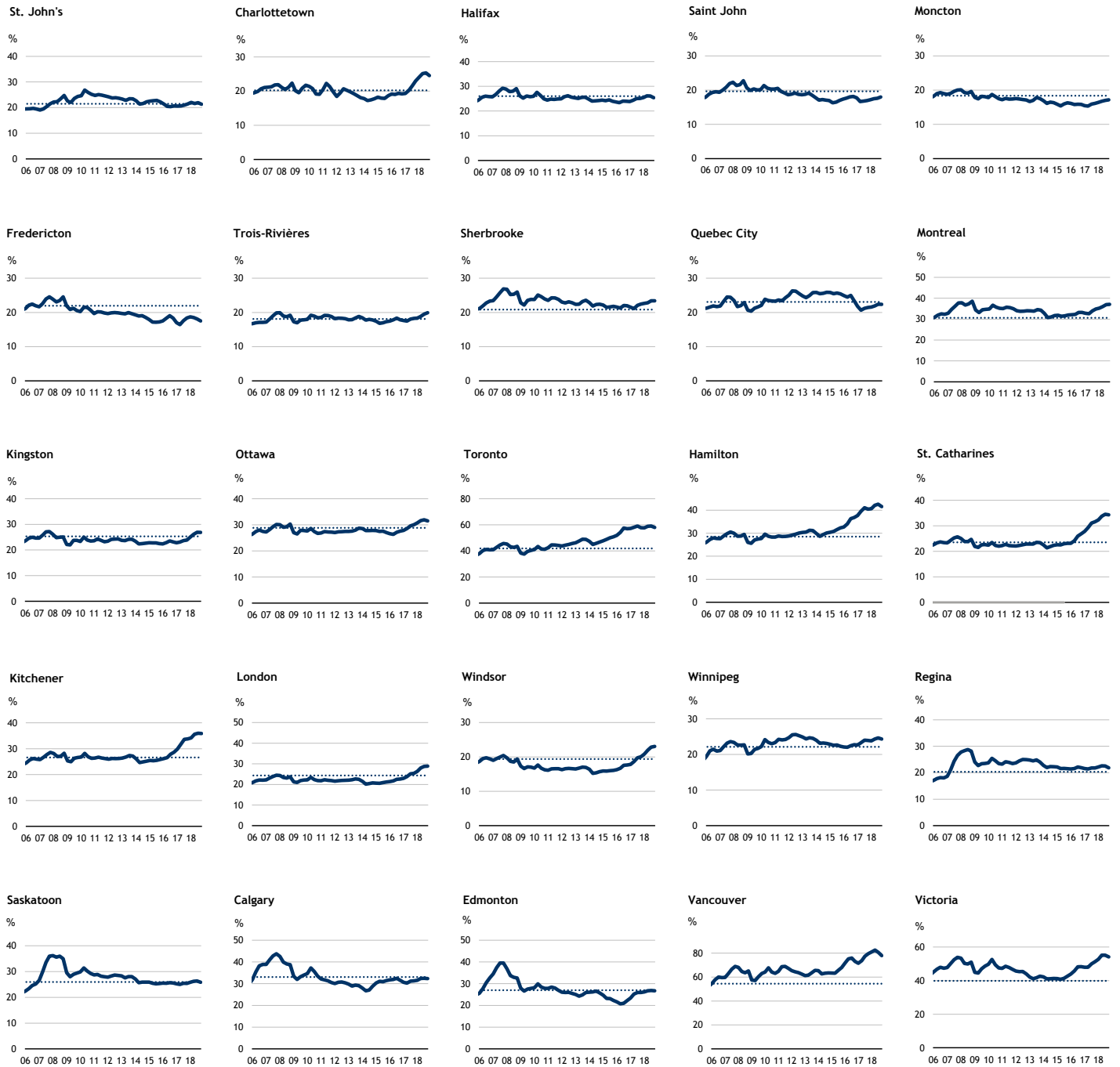
Single-family detached							
Market	Price			RBC Housing Affordability Measure			
	Q4 2018 (\$)	Q/Q % ch.	Y/Y % ch.	Q4 2018 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	615,300	-0.8	0.4	57.1	-0.7	0.9	44.8
Victoria	878,800	-1.4	4.5	65.9	-1.1	2.9	48.2
Vancouver area	1,527,700	-1.9	-4.2	115.5	-2.7	-4.2	72.4
Calgary	554,100	-0.7	0.1	44.4	0.1	1.7	43.6
Edmonton	432,800	-0.7	0.5	37.5	0.2	1.6	36.0
Saskatoon	379,000	-0.7	-1.9	35.4	-0.6	0.4	34.9
Regina	321,900	-2.4	-3.3	30.7	-0.9	0.1	29.3
Winnipeg	315,900	-1.2	2.6	33.3	-0.2	0.9	30.8
Toronto area	1,024,300	-1.0	-1.5	79.1	-1.5	-0.5	57.7
Ottawa	475,400	-0.7	3.7	45.0	-0.5	1.6	39.4
Montreal area	422,300	1.6	5.6	45.7	0.1	2.1	38.5
Quebec City	313,400	0.9	3.3	30.9	-0.1	0.8	31.1
Saint John	229,100	3.7	5.9	28.5	0.5	1.1	29.3
Halifax	326,800	-1.9	0.1	33.2	-0.9	0.4	32.8
St. John's	311,000	-1.9	-2.7	30.3	-0.7	0.5	29.2

Condominium apartment							
Market	Price			RBC Housing Affordability Measure			
	Q4 2018 (\$)	Q/Q % ch.	Y/Y % ch.	Q4 2018 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	462,800	0.4	6.9	42.1	-0.1	2.8	34.1
Victoria	506,600	0.5	9.2	39.0	0.0	3.0	32.1
Vancouver area	663,600	-0.4	6.2	52.5	-0.3	3.0	40.1
Calgary	294,700	1.3	1.7	25.4	0.5	1.2	26.8
Edmonton	255,400	-1.0	-3.0	23.3	0.1	0.4	22.4
Saskatoon	203,000	-2.0	-6.9	20.0	-0.6	-0.5	21.6
Regina	252,500	3.7	9.1	23.0	0.4	2.0	21.6
Winnipeg	217,500	-5.2	-9.1	22.7	-0.9	-1.6	23.1
Toronto area	529,700	0.9	9.1	42.0	-0.1	3.3	31.9
Ottawa	291,500	-2.4	-0.7	27.2	-0.7	0.1	24.5
Montreal area	342,100	1.0	6.0	35.7	-0.1	1.9	32.4
Quebec City	242,500	1.9	0.7	22.4	0.1	0.2	23.7
Saint John	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Halifax	359,000	4.6	3.0	33.3	0.9	1.1	26.9
St. John's	210,200	-0.9	-18.0	20.3	-0.4	-2.5	23.3



Mortgage carrying costs by city

Our standard RBC Housing Affordability Measure captures the proportion of median pre-tax household income required to service the cost of a mortgage on an existing housing unit at market prices, including principal and interest, property taxes and utilities; the modified measure used here includes the cost of servicing a mortgage, but excludes property taxes and utilities due to data constraint in the smaller CMAs. This measure is based on a 25% down payment, a 25-year mortgage loan at a five-year fixed rate, and is estimat-

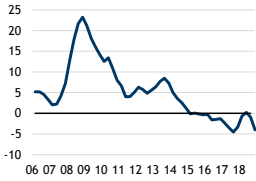


The dashed line represents the long-term average for the market.
 Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics Research

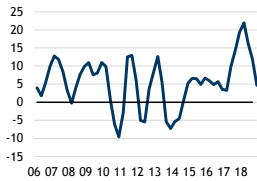


Aggregate home price

St. John's
% change, year-over-year



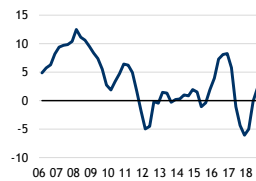
Charlottetown
% change, year-over-year



Halifax
% change, year-over-year



Saint John
% change, year-over-year



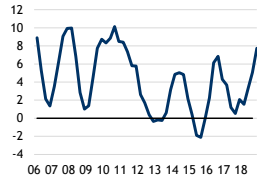
Moncton
% change, year-over-year



Fredericton
% change, year-over-year



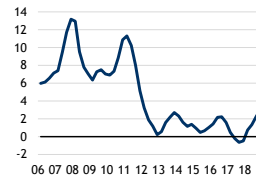
Trois-Rivières
% change, year-over-year



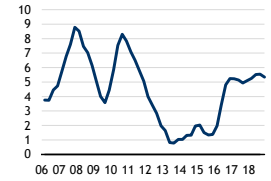
Sherbrooke
% change, year-over-year



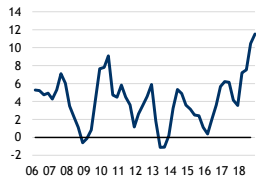
Quebec City
% change, year-over-year



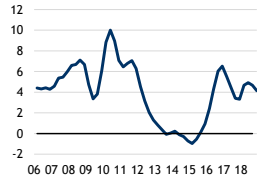
Montreal
% change, year-over-year



Kingston
% change, year-over-year



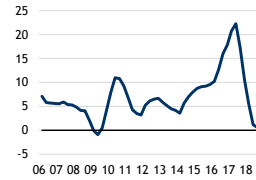
Ottawa
% change, year-over-year



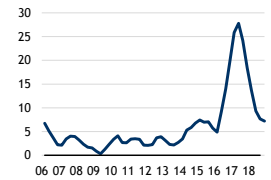
Toronto
% change, year-over-year



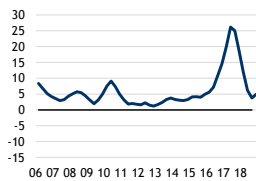
Hamilton
% change, year-over-year



St. Catharines
% change, year-over-year



Kitchener
% change, year-over-year



London
% change, year-over-year



Windsor
% change, year-over-year



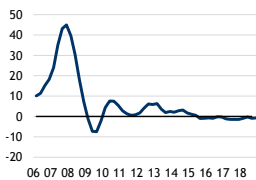
Winnipeg
% change, year-over-year



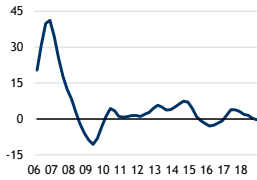
Regina
% change, year-over-year



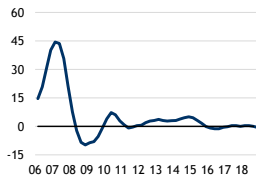
Saskatoon
% change, year-over-year



Calgary
% change, year-over-year



Edmonton
% change, year-over-year



Vancouver
% change, year-over-year



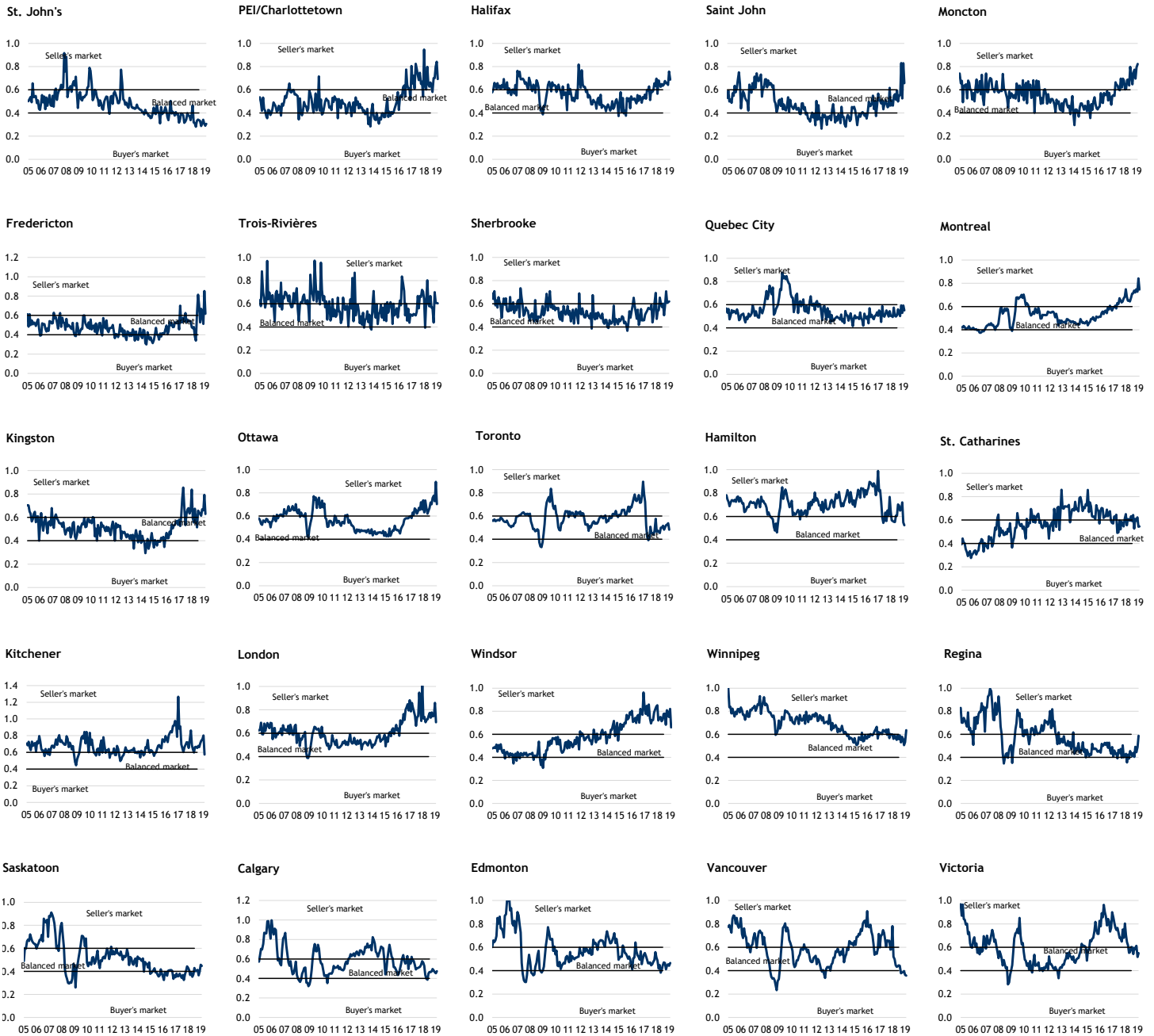
Victoria
% change, year-over-year



Source: RPS, RBC Economics Research



Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics Research

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